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The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC #6210-83
30 August 1983

MEMORANDUM FOR: National Intelligence Officer for Economics

FROM : Major General Edward B. Atkeson, USA
National Intelligence Officer for
General Purpose Forces

SUBJECT : Recent Trends in Soviet Defense Costs []

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1. Thank you for the opportunity to comment on the subject article. I regret that I was not able to give you a more positive response. I have harbored an abiding discomfort over the thesis of the article since SOVA first raised the issue, and at this point can agree only that it is an important matter which merits objective study. []

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2. At our level it is very difficult to verify SOVA's basic assertion that Soviet military production trends for general purpose forces have been down. It would help to see the figures, year-by-year, over the past decade covering all major equipment end-items. Selective figures for aircraft, missiles and ships are not sufficiently persuasive. My hunch is that we would find some significant increases--or at least no fall off--in recent years in ground combat equipment and attack submarines, to cite two examples. []

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3. As I understand SOVA's equipment costing methodology, cost estimates are primarily dependent upon US production costs of the item in question. It is not clear to me to what extent this technique takes into consideration the phenomenon of cost overrun, or "cost growth" as it is often referred to in the Pentagon. If it has not been a factor, let me suggest that it is not an idle matter. For example:

- The US Army's Copperhead artillery projectile increased 117% in cost from 1982 to 1983.
- The Navy's FA-18 fighter has increased from \$9.9 million to \$30 million a piece.
- The Army's Viper anti-tank missile has multiplied in cost by a factor of ten, from \$75 to \$787 each.

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- The Army's AH-64 Apache helicopter cost has escalated from \$9 million to \$17 million each (more than an F-16 fighter!). [redacted]

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4. While I do not have figures at hand to support the point, I suspect that the big cost overruns are associated with newer, more sophisticated equipment rather than with production of proven materiel. I also suspect that investigation would reveal that overruns have been increasing in recent years as the equipment has become more complex. If this is so, we may find that our own cost estimates are growing less reliable as we go along. [redacted]

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5. I recognize that the Soviets avoid some significant causes of cost overrun with their practice of freezing some weapons design when they go into production. However, this frequently results in a number of different production runs, and does not solve the problem of costs inherent in entering production using unfamiliar high technology processes. [redacted]

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6. Another point we should keep in mind is the sharp increase in item costs which we experience when lot buys are reduced or stretched out over a longer period. For example:

- A \$25 million dollar cut in the US Army's Patriot program in 1981 (shifting the purchase of 13 fire units and 283 missiles to the out years) resulted in additional costs of \$282.3 million for the program.
- Litton Industries' approved charges for building amphibious assault ships for the Navy escalated from \$1.4 billion for nine ships in 1971 to \$1.66 billion for five ships in 1980. Bottlenecks and slowdowns drove costs virtually out of control. [redacted]

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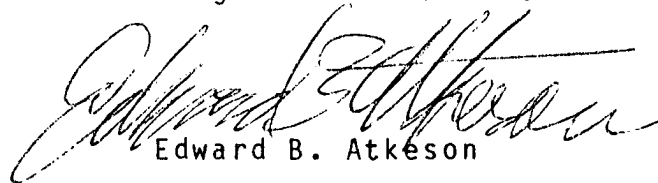
7. If SOVA is correct that there have been bottlenecks, slowdowns and stretch-outs in Soviet military procurement programs, we should ask to see how the resulting additional costs have been determined and how they have been handled in their calculations. Our experience would indicate that the original cost estimates should be increased by a factor somewhere between three and ten. Where the information comes from sources other than mirror-imaging of US costs, we should seek assurances of confidence that the figures used are the true final prices paid by the Soviet Ministry of Defense and not initial estimates.

8. Contrary to SOVA's conclusions, my observation of developments among Soviet general purpose forces leads me to believe that the Soviets are pressing ahead in most important dimensions. I see enlarged forces with new designs of tanks, artillery, aircraft and ships with all sorts of new capabilities. I see understrength formations being upgraded with new equipment and new units being formed. I see all titanium hull submarines (deepest diving, highest speed boats in the world) coming into the force along with the largest non-aviation surface combatants built by any nation since World War II. I have difficulty reconciling these observations with zero growth in the procurement budget. I would expect that the shift to high technology equipment and new ships and aircraft, which have never been built before, would tend to increase expenditures, even if fewer units were purchased than in the past. In sum, I see parallels to our problem in which we can only purchase 700 tanks for the same amount, in constant dollars, with which we purchased almost 7,000 tanks 30 years ago. [redacted]

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9. I suggest that we may wish to look more closely into some of these problem areas before we go too far with the SOVA thesis. [redacted]

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Edward B. Atkeson

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MEMORANDUM FOR: NIO/ECON

FROM : NIO/GPF

SUBJECT : Recent Trends in Soviet Defense Costs [REDACTED]

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